



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: SB 500 SLS 10RS 855
Bill Text Version: ENGROSSED
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

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Dept./Agy.: Economic Development / Revenue Analyst: Greg Albrecht
Subject: Continue Angel Investor Benefits With Tax Rebates

TAX/TAXATION EG DECREASE SD RV See Note Page 1 of 1
Authorizes the Department of Economic Development to grant up to \$5 million of rebates per calendar year at the rate of 35% of an investor's investment in "Louisiana Entrepreneurial Business," not to exceed \$1 million per year per business and Current law offered benefits to investors in qualifying entrepreneurial businesses. Various conditions had to be met by the investor/investment and the participating business. Investor benefits were received through refundable tax credits of 50% of the investment, disbursed evenly over five years. Total benefits granted each year could not exceed \$5 million per year. No benefits could be granted after December 31, 2009. Proposed law permanently continues the program with investor benefits received through rebate payments of 35% of the investment, disbursed evenly over five years. Total benefits granted each year are capped at \$5 million per year, with the rebate for the first year payable 24-months from the date investments are certified, and rebates for subsequent year's payable annually. Benefits shall be allowed for investments made after January 1, 2010, with no program expiration date provided. The Louisiana Mega-Project Development Fund is to be reduced each year by an amount equal to the rebates awarded by this program. Effective upon governor's signature.

Table with 7 columns: EXPENDITURES, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 5 -YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

Table with 7 columns: REVENUES, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 5 -YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

EXPENDITURE EXPLANATION

The Department of Economic Development indicated the need for an additional staff person and support expenses, totaling some \$80,000 per year. However, the tax credit version of the program has been administered by the department since 2005, and new participation in the program was only prohibited as of December 31, 2009. It seems unnecessary to provide additional administrative resources for what is essentially the continuation of an existing program.

REVENUE EXPLANATION

Based on experience with the program over the 2005 - 2009 period, the Department of Economic Development (LED) expects participation in the 35% rebate version of the program in this bill to meet or exceed participation in the 50% tax credit version of the program (the previous version was oversubscribed to point that the effective tax credit benefit rate was 32% in 2008 and 27% in 2009 rather than 50%). Thus, with the 35% rebate version in this bill limited to \$5 million of total annual benefits granted and then each year's benefit grants were disbursed evenly over five years, a simple picture of state revenue exposure could be considered: FY11 \$1 million, FY12 \$2 million, FY13 \$3 million, FY14 \$5 million, FY15 \$5 million, and then each subsequent year's exposure stabilizes at \$5 million per year (there is no expiration of this version of the program).

The bill appears to intend to cover the state tax revenue loss (rebates paid from current tax collections) from resources of the Mega-Project Fund; effectively changing the dedicated purposes of that fund. Thus, to the extent sufficient resources are available from that fund, statutory dedications are depicted as reduced each year in the table above.

LED provided projections of minimum rebate exposure based on fairly conservative assumptions about participation in this rebate version of the program (start with 25% less investment than in 2010 and grow by only 3% per year - well below growth of the tax credit version of the program) that resulted in about \$1.5 million of exposure in FY11, growing to nearly \$7 million by FY15. While there is no expiration of this version of the program, incremental state exposure should stabilize at \$5 million per year.

It should be noted that annual realizations of benefits can lag behind annual benefit exposure levels, so that actual revenue losses in any particular year can be less than the potential revenue loss (for the first four years of the program cumulative realizations have been 53% of cumulative benefit exposure). However, this may be more likely when benefits are provided through tax credits since benefits are received only when tax returns are filed. With benefits provided through rebate payments, benefit realizations would presumably occur as participation paperwork is continually processed. This may work to more closely align annual benefit realizations (state revenue losses) with annual benefit exposure.

Senate Dual Referral Rules

[X] 13.5.1 >= \$100,000 Annual Fiscal Cost

[] 13.5.2 >= \$500,000 Annual Tax or Fee Change

House

[X] 6.8(F) >= \$100,000 Annual SGF Cost

[] 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease

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